



MEMORANDUM

To: Members of the Performance & Compensation Committee
California Public Employees' Retirement System

Date: June 13, 2011

From: Pension Consulting Alliance, Inc. (PCA)

RE: Real Estate Staff Incentive Compensation Plan

As the Real Estate Consultant to the Board, PCA has been asked to comment on the proposed revisions to the Fiscal Year 2011-2012 Incentive Compensation Plans for Real Estate Unit Staff. PCA has reviewed the proposed matrix for the various positions within the Real Estate Unit.

The proposed revisions involve both changing the elements within the plans and adjusting the weights given to various factors. The quantitative factors account for at least 50% of the overall weighting for each individual, with the qualitative factors accounting for either 45% or 50%, depending on the position.

The real estate portfolio and organization has been through a significant restructuring and, most recently, a realignment of objectives and goals and shifts in personnel responsibilities and assignments. The primary focus for the Staff is the implementation of the new Strategic Plan approved by the Investment Committee in February 2011. As such, for fiscal year 2012, certain non-performance related quantitative factors have been included regarding (i) the completion of new operating partnerships with selected separate account investment managers and (ii) the net growth in the dollars invested in the "Strategic" (versus "Legacy") portfolio within Real Estate.

While PCA believes these are measurable and reasonable metrics against which to hold Staff accountable during the next year, using these sorts of qualitative, versus quantitative performance based measurements, does bear some risk. Both of these metrics may create the unintended consequence of motivating Staff to commit money aggressively in order to maximize incentive compensation. Therefore, it is important that real estate Staff's pursuit of these non-performance related quantitative factors be monitored and supported in balance with the measured and prudent implementation of the new strategic plan.

PCA supports and is in agreement with the proposed incentive compensation plan for Real Estate, but believes that the factors should be reviewed again next year and tilted more towards actually achieved quantitative performance.



Respectfully,



Paul Mouchakkaa

Managing Director